

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*
Derrick Headd, Fiscal Staff Analyst *DH*

DATE: December 4, 2007

RE: Ronart Industries, Inc. Petition for Authorization as a Tool and Die Recovery (Renaissance) Zone, in Accordance with the Michigan Renaissance Zone Act (Public Act 376 of 1996) **Recommend Approval**

Introduction

The Planning and Development Department (PDD) on behalf of Ronart Industries, Inc. (Ronart) is seeking the authorization of your Honorable Body by resolution to designate Ronart Industries, Inc. a Tool and Die Recovery Zone. PDD's Council letter and resolution is attached (Attachment I).

The petition by Ronart for a Tool and Die Recovery Zone was discussed during the Planning and Economic Development Committee meeting last week on Wednesday, November 28th.

The Fiscal Analysis Division spoke verbally in favor of this request during the discussion. Our conclusion was based on a review of materials provided by Ronart and PDD, and responses provided by Ronart to the many questions we raised regarding this request, which can be seen per Attachment II.

Based on Ronart's responses at the table to questions raised by committee members and Fiscal's favorable recommendation, the Planning and Economic Development Committee members voted to put this request and resolution on for a vote on today's formal agenda with approval.

This memorandum provides Fiscal Analysis's review of this request and related documentation to come up with its favorable recommendation.

Michigan Renaissance Zone Act (P.A. 376 of 1996)

In 1996, the State adopted the Michigan Renaissance Zone Act (Act 376 of 1996). The purpose of the Act is to assist certain local governments in encouraging economic development, job creation and retention, and economic growth.

Tool and Die Recovery Zones

In 2003, the Michigan Renaissance Zone Act was amended by the State Legislature to allow the Michigan Strategic Fund Board to designate up to 25 tool and die renaissance recovery zones ("recovery zone"), per Act 266 of 2003. Council should note that Ronart, along with 15 other tool and die businesses, are attempting to be designated for one of the last two zones that are left.

To qualify for a recovery zone designation and receive the benefits under this amendment of the Renaissance Zone Act, a tool and die business must:

- Obtain an authorizing resolution of support from the local government unit where the respective company's parcel of property is located that consents to the creation of a recovery zone. *PDD's resolution on Ronart's behalf is part of Attachment I.*
- Lease or own the parcel of property that is to be included in the proposed recovery zone. *Ronart owns the real and personal property to be designated as the recovery zone.*
- Use the property primarily for tool and die business operations: 75% or more of the gross revenue generated from the tool and die operations that take place on the business property at time of designation. *At least 75% of Ronart's gross revenue is generated from tool and die operations. Ronart is a full service tool and die facility, which has been operating at property it owns at 19365 Sherwood Avenue, Detroit since 1957. It also owns adjacent real property at 19215 Sherwood Ave. and 19300-19396 Sherwood Ave., which it uses as part of its operations.*
- Have under 75 full-time employees at time of designation. Note: the tool and die business can have over 75 employees after designation of the recovery zone since it is the legislation's intent to help strengthen the company's operations from tax relief given by the zone. *Ronart currently has 70 employees. Ronart had 58 employees at the time it submitted the recovery zone application to the State in September 2007. **Of the 12 new hires, 7 were called back from layoff and 5 are from Focus Hope. In addition, 6 of the new hires are African Americans and 2 are Detroit residents. Ronart is committed to hiring 21 full-time employees over a 2-year period. In addition, Ronart has pledged that all of the proposed 21 new hires will be comprised exclusively of Detroit residents. In addition to the new hires, Ronart has pledged it will use the freed up resources***

from tax savings to invest in new programs. The first is a new employee/apprenticeship training program, aimed at Detroit minority residents interested in tool and die work at Ronart. Ronart also proposes to initiate an internship program, in order to create a pipeline of highly skilled workers in Detroit.

- Be classified as a particular industrial classification as defined by the North American Industrial Classification System. *Ronart's code is 333514-Special Die and Tool, Die Set, Jig, and Fixture Manufacturing.*
- Participate in a written collaborative agreement with other tool and die businesses. *Ronart became a part of the "Global Tooling Alliance, LLC-Collaborative Agreement", along with 15 other tool and die businesses, in April 2007. Fiscal saw this agreement signed by all participants, including Ronart.*
- Have a collaborative agreement that demonstrates synergistic opportunities among the companies and must include, but is not limited to, all of the following elements:
 1. Sales and marketing efforts
 2. Development of standardized processes
 3. Development of tooling standards
 4. Standardized project management methods
 5. Improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs.

The Global Tooling Alliance collaborative agreement Ronart is a part of speaks to all of the above elements.

Tax Relief Benefits under the Tool and Die Recovery Zone Act

Commensurate with the language in the Renaissance Zone Act, a tool and die business located in or designated as a recovery zone is exempt from the payment of the state Single Business Tax (which becomes the "Michigan Business Tax" on January 1, 2008), state education tax, state and local personal and real property taxes, and local business and income taxes, including the utility users tax.

The tool and die business in a recovery zone is still required to pay taxes mandated by the federal government, local bond obligations, school sinking funds or special assessments. In addition, the business is not exempt from paying the Michigan sales tax.

Council should also note that employees who work for Ronart but do not live within the area to be designated as a recovery zone still are required to

pay city income taxes. Current employees do not live within the Ronart zone area.

The State of Michigan reimburses intermediate school districts, local school districts, community college districts and public libraries where taxes are abated. The State of Michigan does not replace the tax revenue lost to the local unit of government or other taxing jurisdictions except those listed in the preceding sentence.

Taxes can be abated up to 15 years. The minimum is 5 years. In all cases, the tax relief will be phased out in 25% increments over the last 3 years of the zone period designation.

Council should note that Ronart initially requested for a 15-year duration for tax relief in its designated recovery zone. The City's Assessor, with PDD's concurrence, desires that your Honorable Body approve only a 12-year abatement period for Ronart's recovery zone. The 12-year period is part of PDD's resolution for Council's consideration, which is part of Attachment I.

The business must be current with all state and local taxes in order to be eligible for benefits under the recovery zone program. To date, Ronart is current with all of its tax obligations.

Prior Tax Abatements

Previously, Ronart has received the following 3 Public Act 198 Tax Abatements for the investments listed below:

CERT NUM	NAME	BEG DATE	END DATE	Real Property	Personal Property	Total Investment
88-371	Ronart Industries, Inc.	1988	2000	\$1,354,000	\$324,500	\$1,678,500
96-711	Ronart Industries, Inc.	1996	2008	\$1,165,824	\$1,044,992	\$2,210,816
97-699	Ronart Industries, Inc.	1997	2010	<u>\$4,214,847</u>	<u>\$0</u>	\$4,214,847
198 Tax Abatement Total				\$6,734,671	\$1,369,492	\$8,104,163

In addition to its major capital investments with tax breaks, Ronart has made over \$10 million in capital investments without tax breaks since 1999 to help grow and modernize its plant operations to become more competitive. Investment amounts made were:

1999	\$2,868,372
2000	\$5,454,611
2001	\$950,000

2002	\$145,000
2004	\$255,000
2005	\$75,000
2006	\$90,000
2007	<u>\$200,000</u>

Total \$10,037,983

Investments made include two new bays and a large prove out press. The large press and the associated coil feeder and puller were required to prove out large progressive dies, which is what Ronart's customers were moving toward using more and more.

Rationale for Tax Break

Despite the investments made by Ronart as explained previously, Ronart suffered losses in 2001 (\$3.4 million), in 2002 (\$2.2 million), in 2003 (\$1 million), in 2004 (\$1 million) and 2006 (\$2.7 million). According to Ronart, the losses were incurred because of Ronart's customers beginning in 2000 reduced the volume of dies it was placing outside their own facilities, and DaimlerChrysler's cost cutting program for 4 years and was then only embarking upon on new product design.

Despite these challenges, Ronart has continued to modernize its equipment to become more efficient in its operations, reduce cycle timing and eliminate costly processes, as demanded by customers. Ronart believes it has restructured itself through cost cutting and new technology to compete effectively in the world economy, if it is able to obtain the tax relief available through the Tool and Die Zecovery Zone Act.

In addition, Ronart needs the recovery zone to remain competitive with its peers and to retain its contracts. Ronart's principal Michigan competitors are participants in the recovery zone program, and currently, 196 tool and die shops have the recovery zone designation.

Ronart states that the tax relief will allow the company to price its products competitively, allowing them to keep and expand its business in Detroit, allowing Ronart to hire additional employees. The tax relief under the recovery zone would also improve Ronart's cash flow, since the payment process of some of its major clients challenges the company, where payments are made after dies are made and proved out.

Cost/Benefit Analysis

Key comments concerning this cost/benefit analysis:

- Ronart paid \$41,442 in Single Business Tax in 2006, but this has no bearing since it is a State tax.
- Ronart essentially has not paid income taxes to the City of Detroit in recent years because of the losses suffered by the company since 2001.
- Ronart pays about \$10,000 annually in utility users tax.
- Ronart paid about \$332,000 in real personal property taxes in 2006.
However, only \$97,000 relates to the City of Detroit proper. In other words, if Council approves the recovery zone for Ronart, the City would lose only \$97,000 per year for 9 years, then the lost would ratchet down by 25% starting in year 10. Please keep in mind that the State reimburses for state, school and library tax losses. In addition, under the new Michigan Business Tax legislation, Ronart would qualify for an industrial break on real and personal property taxes anyway.
- The average hourly pay for Ronart's current employees is \$22.84 per hour. The average wage for new hires is expected to be \$14-\$16 per hour.

Based on the above information, the City of Detroit would lose a total of approximately \$110,000 annually in property, utility users and income taxes over a 9-year period, then \$82,500 in year 10, \$55,000 in year 11 and \$27,500 in year 12. But the City gains in income taxes from the retaining of 58 employees, 12 new hires since September 2007 and projected 21 new hires over 2 years of \$82,100 over the 12-years

So, for the first 9 years of the recovery zone abatement period, the City comes out on the short-end by about \$28,000 annually. Then, the City breaks even in year 10, and starts to get a positive return in year 11. Of course, the City would get its return on investment sooner if more employees were hired than projected. This would be offset, however, by higher business income tax lost due to better earnings made by Ronart.

The bottom line is that the lost of \$28,000 is not a huge lost to the General Fund over 9 years, especially if it means keeping a company viable in the City of Detroit that has shown commitment to improving its operations and to hire Detroiters. The recovery zone would be an experiment, we feel is Worthwhile.

In addition, the City would receive increased taxes paid by Detroit based businesses that Ronart and its employees make purchases from. These additional taxes could reduce the amount the annual lost of \$28,000 to the City even further.

Other positive elements speak to Ronart's turnaround, with the help of the recovery zone designation:

1. Since 2002, Ronart's net losses have averaged \$1.4 million annually. But conservatively, the company projects a net profit of \$71,000 for 2007 based

on current business trends. Recent efforts to streamline costs have helped significantly.

2. 2007 sales projected at \$11 million, a 26% increase over 2006, based on trends. To date, Ronart's open purchase order value exceeds \$8.2 million.
3. Industry trends support an overall increase in revenues for large die manufacturers-decreasing model life spans are increasing the overall demand for large dies, which Ronart appears well positioned to take advantage of.
4. Although a more optimistic view, Ronart's 2008 sales could reach \$16 million. So far, Ronart anticipates at least \$7.3 million in new business in 2008. In addition, Ronart projects a total universe of \$222 million in potential business to bid on in 2008, of which the company hopes to win at least 7.1%, or \$15.7 million.
5. Ronart hopes to gain more Toyota, Nissan and Honda business. In addition, Ronart has been exploring Asian relationships over the last 2 years.

However, Ronart is still challenged by the fact that Chrysler continues to account for 80% of its revenue, and the Detroit 3 account for 90% of overall revenue.

The above analysis serves as the basis for our favorable support of the Ronart Tool and Die Recovery Zone designation.

There is a minor issue. Attached to PDD's resolution should be Ronart's list of its real and personal property and the current taxes it pays on these properties. This list would support its reference in the 7th whereas of the resolution. I brought this to the petitioner's and PDD's attention. We will have a copy on hand at today's formal session, if necessary.

Attachments

cc: Council Divisions
Auditor General's Office
Douglass Diggs, Planning and Development Director
Clinton Griffin, PDD- Development Specialist
Michael Marston, Ronart Industries, Inc.-Corporate Counsel
Margaret O'Riley, O'Riley Consulting
Roger Short, Chief Financial Officer
Pamela Scales, Budget Director
Kandia Milton, Mayor's Office

ICJ:\CORLEY\Ronart Tool and Die Recovery Zone Request 2007.doc

Attachment I

CITY OF DETROIT
PLANNING & DEVELOPMENT DEPARTMENT

2300 CADILLAC TOWER
DETROIT, MICHIGAN 48226
PHONE 313-224-6380
FAX 313-224-1629
WWW.CI.DETROIT.MI.US

November 5, 2007

Detroit City Council
1340 Coleman A. Young Municipal Center
Detroit, MI 48226

RE: Request Discussion regarding the Petition by the Ronart Industries, Incorporated to be authorized as a Tool and Die Recovery Zone, in accordance with Michigan Renaissance Zone Act P.A. Act 376 of 1996 (MCL 125.2688)

Honorable City Council:

Representatives of the Planning & Development and Finance Departments have reviewed the petition of the following company, which requests City authorization by resolution to be a Tool and Die Recovery Zone.

Based on extensive conversations with the company and the examination of the submitted documentation, we are convinced this company meets the criteria for tax relief as set forth by Michigan Renaissance Zone Act, PA Act 376 of 1996

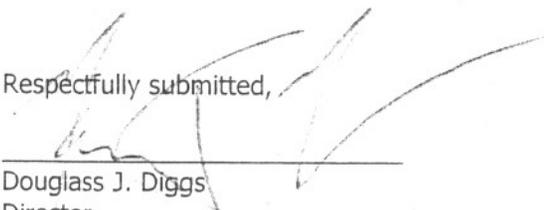
COMPANY: Ronart Industries, Inc
ADDRESS 19365 Sherwood, Detroit, Michigan
LOCATED IN: Industrial Development District (Established 1996)

TYPE OF BUSINESS: A family owned tool and die company who has been in Detroit for over 50 years. Likely the largest Tool and Die shop left in Detroit, and one of only five shops in the country that has the ability to provide large panel automotive die design and manufacturing service to automotive customers. We grew steadily over the past 40 years and have employed as many as 180 employees.

EMPLOYMENT: Existing 38
New hires 21
Total 59

We request that a discussion be held for the purpose of considering the authorization by resolution of a Tool and Die Recovery Zone.

Respectfully submitted,



Douglass J. Diggs
Director

DJD/CG/cg

cc: Kandia Milton, Mayor's Office
C. Nyeche
B. Watkins
M. Marston



RONART INDUSTRIES, INC

19365 Sherwood
Detroit, MI 48234-2899

October 31, 2007

Detroit City Council
City of Detroit
202 Coleman A. Young Municipal Center
Detroit, MI 48226

Dear distinguished members of Detroit City Council:

Ronart Industries is requesting your support for our company to be authorized as a Tool and Die Recovery Zone in 2007. The law requires that your support be granted through a City Council resolution. We certify that we are part of a Tool and Die Collaborative, are in the correct North American Industrial Classification Code, and have less than 75 employees, all requirements to participate in the program.

Thank you for your serious consideration of our request. An additional letter is attached to this package, which provides further details regarding this program, and our reasons for seeking your support.

Please do not hesitate to contact me at 313-893-4800 X 207, should you have any questions.

Sincerely,



Michael Marston
Corporate Counsel



RONART INDUSTRIES, INC

19365 Sherwood
Detroit, MI 48234-2899

October 8, 2007

Detroit City Council
City of Detroit
202 Coleman A. Young Municipal Center
Detroit, MI 48226

Dear distinguished members of Detroit City Council:

The Tool and Die industry in Michigan has been hit especially hard over the past five years, and hundreds of shops have closed, thousands of high-wage jobs have been lost primarily because those companies have not found ways to remain competitive in this global environment. The experience here at Ronart is not that different.

Ronart Industries is a family-owned company who has been in Detroit for over 50 years. We are likely the largest Tool and Die Shop left in Detroit, and one of only five shops in the country that has the ability to provide large panel automotive die design and manufacturing service to our automotive customers. We grew steadily over the years, and have employed as many as 180 employees, at wages in excess of \$20 an hour. That growth trend came to an abrupt end in about 2003, when the overseas competition began to whittle away at our customer base.

We have had to do everything we can to keep up with technology in order to keep our customers, and to keep our doors open, but it has been a struggle. Although, we now have less than 60 employees, we have a long **jobs opening list for positions that pay upwards of \$25 an hour**, for the properly qualified candidate.

We do feel like the worst may be behind us, if we can take advantage of a critical program in Michigan called the Michigan Tool and Die Recovery Zone program. Our primary Michigan competitors participate in this program, which gives them a structural cost advantage over Ronart, when we are in head to head competition with them on bidding on a new project.

The program works very similar to a traditional Renaissance Zone, but with additional requirements including: being in one of five North American Industrial Class Codes; having less than 75 employees; participating in a Tool and Die Collaborative; and lastly, securing support from the City of Detroit through the adoption of an authorizing resolution.

We have joined the Global Tooling Alliance (GTA), a Tool and Die collaborative created through the Michigan Manufacturers Association, to apply to participate in the Tool and Die Recovery Zone Program. The GTA has 15 members stretching from Saginaw to Fenton, Westland to Clinton Township, and everywhere in between - we even have one member in Grand Rapids. Our application for a Tool and Die Recovery Zone is currently pending in Lansing.

Participation in this program is one of our last glimmers of hope to turn this company around and grow the business here in Detroit, by filling those positions. Your action will allow three times as much tax revenue to be freed up to invest in new programs, while City of Detroit revenue will be impacted by less than .005% annually. We will continue to pay debt millage under this program, and schools will be fully reimbursed, so they are not impacted at all by this designation.

However, the resources provided through this program will allow us not only to grow our employment base, but also to pledge to launch a new employee training/ apprenticeship program aimed at Detroit, minority residents who are interested in becoming Tool and Die workers at Ronart Industries. Additionally, we want to launch an internship program to create a permanent pipeline of highly skilled workers here in Detroit, which our operations require.

However, our ability to participate in the Tool and Die Recovery Zone program is critical to our plans to free up resources, to implement these programs, and to strengthen our company in Detroit.

We have attached several documents for your review, at the direction of City Council Staff and the DEGC.

The following items are attached to this submittal letter:

1. History of company:
 - a. What's produced, how it has changed, brief description of M& E investments, ups and downs of industry
 - b. Industry changes
 - c. Overseas influence/competition
 - d. Technology influence
 - e. Automotive "payment terms" influence
 - f. Customers
 - g. Hourly wages
 - h. Investment numbers from most recent tax abatements, and actual numbers

2. City of Detroit Human Rights letter:
 - a. Impact of program on Ronart Industries
 - b. Apprenticeship program outline/commitment
 - c. Hiring of student interns, if approved
 - d. Annual cost of zone to Detroit vs. total dollars freed up

- e. Future of Ronart, if Detroit denies
 - f. Impact study of Ronart on surrounding neighborhood
 - g. List of Detroit based suppliers
 - h. Projections for needs and opportunities: new jobs needed and forecast for future
3. EEOC reports and current metrics
 4. Resolutions from competitors local units of government:
 - a. Farmington Hills (Viscount Industries)
 - b. Lyon Township (Richard Tool and Die)
 5. Reports:
 - a. Latest available MEDC verbal report to Michigan Strategic Fund on status of program
 - b. Center for Automotive Research report
 - c. "World Class Tool Shop and It's prospects for Michigan"
 6. Tool and Die Recovery Zone Program information:
 - a. Tool and Die Zone Fact Sheet
 - b. Tool and Die Law
 - c. Tool and Die Q & A
 - d. Tool and Die sample resolution
 - e. List of Michigan communities that have approved zones

One of the great challenges in our request is time. In order for us to participate in this Tool and Die Recovery Zone with our Collaborative (Global Tooling Alliance), City of Detroit action is required **immediately**, since the GTA application is already before the MEDC for consideration. Additionally, there is only one more zone available, so this is likely our last opportunity to participate in this critical program that is designed to save, strengthen and grow some of the highest paying jobs in the state.

Noting that, we sincerely appreciate your immediate attention and consideration of our request. Please contact me directly, with any questions you may have, and I too will be in touch to understand if and when our request might be considered.

I will contact you later this week to discuss next steps or answer any questions. Thank you again for your consideration.

Sincerely,



Michael Landers
Executive Vice President
Ronart Industries

BY COUNCIL MEMBER _____

WHEREAS, the City of Detroit desires to promote economic activity and maintenance/increases in the number of jobs available to residents of the area, and;

WHEREAS, certain industries in the state are facing difficult times and the tool and die industry, in particular, has sustained losses due to foreign competition and increased productivity;

WHEREAS, the designation of a Renaissance Recovery Zone will temporarily reduce the tax burden paid by the business enabling it to reposition itself to compete globally, and;

WHEREAS, the business has entered into a collaborative agreement with other business entities having the appropriate North American industrial classification, and;

WHEREAS, the qualified tool and die business property is property leased or owned by a tool and die business and used primarily for tool and die operations;

WHEREAS, should the area be designated a Renaissance Recovery Zone, property within that zone will be exempt from taxes levied by the city, county, and other units of government as provided under this Act, and;

WHEREAS, we estimate that the tax revenue lost, which is estimated on the attached schedule, would be a small fraction of the benefits the designation of a Renaissance Recovery Zone will bring the community.

WHEREAS, the business has entered into an agreement with the Detroit Work Force program and the Focus Hope Training facility to establish an apprentice/training program, and;

WHEREAS, the business will adhere to the Executive Order 2007-01 by creating no less than twenty one (21) jobs to be filled by Detroit residents only, and;

THEREFORE BE IT RESOLVED, that the City of Detroit requests that the State of Michigan designate Ronart Industries Incorporation, 19365 Sherwood Street, Property ID #s: 15012185-232, 15012007-19,15012233, 2300096.711, 15990755.00, 15990756.01 and 15990756.02, identified by the resolution a Renaissance Recovery Zone under Public Act 376 of 1996 for a duration of up to twelve (12) years.

Ronart Industries, Inc. currently pays taxes on the following tax items:

1. Item 15012185-232 on real property (land & buildings) on Lots 1 to 27 including the West 4 feet of vacated Sherwood Avenue adjacent to said lots, and Lots 80-95, inclusive, including all of the vacated public alley at the rear thereof, William Livingston=s Seven Mile Subdivision, as recorded in Liber 55, page 28 of Plats, W.C.R., commonly known as 19365 Sherwood Avenue. SEV=\$1,454,525; Taxable Value=\$1,207,474; 2006 Summer Tax=\$93,353.37; 2006 Winter Tax=\$12,454.37.
2. Item 15012007-19 on real property (land & buildings) on Lots 52 to 67, inclusive, and the South 25 feet of Lot 68, North Detroit Subdivision, as recorded in Liber 16, Page 40 of Plats W.C.R., commonly known as 19300 Sherwood Avenue. SEV=\$110,273; Taxable Value=\$97,710; 2006 Summer Tax=\$7,572.82; 2006 Winter Tax=\$1,007.77.
3. Item 15012233 on real property (land & buildings) on Lots 28 to 33 including the West 4 feet of vacated Sherwood Avenue adjacent to said lots, including all of the vacated public alley adjacent to said land, of William Livingston=s Seven Mile Subdivision, as recorded in Liber 55, page 28 of Plats, W.C.R., commonly known as 19215 Sherwood Avenue. SEV=\$16,779; Taxable Value=\$14,866; 2006 Summer Tax=\$1,152.11; 2006 Winter Tax=\$153.30.
4. Item 2300096.711 on real property (building only) improvements under 1996 Industrial Facility Tax Certificate 96.711 for a portion of 19365 Sherwood Avenue. SEV=\$190,645; Taxable Value=\$206.405; 2006 Summer Tax=\$7,965.44; 2006 Winter Tax=\$983.15.
5. Item 15990755.00 on Personal Property owned by Ronart Industries, Inc. SEV=2,005,930; Taxable Value=\$2,005,930; 2006 Summer Tax=\$155,466.49; 2006 Winter Tax=\$20,689.
6. Item 15990756.01 on Personal Property covered by Industrial Facilities Tax Certificate 96.711. SEV=164,310; Taxable Value=\$164,310; 2006 Summer Tax=\$6,865.12; 2006 Winter Tax=\$847.34.
7. Item 15990756.02 on Personal Property covered by Industrial Facilities Tax Certificate 97.699. SEV=\$567,190; Taxable Value=\$567,190; 2006 Summer Tax=\$23,689.12; 2006 Winter Tax=\$2,925.05.

The total millage rate of taxes assessed against the above items (except Industrial Facilities Tax items) is 86.9484 including County [general operating, jail, parks, rest areas & Huron-Clinton Metropolitan Authority], City [general operating & debt service], Community College, Local School [state education, school operating & debt service], Library, and garbage disposal).

Attachment II

Questions by the Fiscal Analysis Division on the Ronart Industries, Inc.'s Tool & Die Recovery (a/k/a "Renaissance") Zone Request

1. I notice that Ronart Industries' name is omitted from Form A of the application for the recovery zone with the State's Michigan Economic Development Corporation (MEDC). Why is this?
 - a. Ronart's name is not omitted. Form A is two pages, so I wonder if you only have page 1? I will have the full application with me tomorrow so you can review. There is no time designation next to their name, since City Council has not passed a resolution yet.
2. Please send another copy of page 2 of Form A: the name of the other companies applying for the recovery zone is illegible.
 - a. See answer above....
3. All companies listed on Form A were not listed as signatures on the collaborative agreement. Why is this case since it is assumed the companies on Form A are seeking a recovery zone designation through the Global Tooling Alliance, LLC collaborative agreement?
 - a. There are nine pages that include all the signatures from all the companies in the application...signatures were faxed in on individual pages, thus the nine pages...again, I will have the full application tomorrow for your review
4. PDD states in its November 5, 2007 letter to Council, that Ronart currently has 38 employees and plans to hire 21. Ronart, however, states in its certification form dated August 21, 2007, that it has 58 employees and in its EEO-1 document submitted to Human Rights, dated September 28, 2007, that it has 65 employees and it anticipates to hire 31. What are the true employment numbers for Ronart?
 - a. PDD's letter of November 5, 2007 is in error. Ronart had 58 employees when the application was prepared and submitted to the MSF.
 - b. Ronart has committed to hire up to 21 new hires within the next two years. Since the time of submission of the application, Ronart has added 12 employees, 7 by call back from layoff, and 5 new hires through Focus Hope. The current employee count is 70.
5. The majority of Ronart's documentation references a 15-year abatement. PDD's resolution, however, references a 12-year abatement. What is the basis for the discrepancy? Has Ronart reduced its request for 15 to 12 years?
 - a. Ronart is seeking the full 15 years, but we were told that City Council was only going to approve 12, which we accept.
6. The provisions in the Recovery Zone legislation state that in all cases, the tax relief will be phased out in 25% increments over the last three years if the zone designation. Thereby, allowing an adjustment period that includes tax bills of 25%, 50% and 75% for years 10, 11 and 12 of the abatement. Has Ronart planned for this, having a full tax break for 9 years and a three year phase out or had it planned for a full 12- year tax break with a three year phase out (a 15 year abatement)?
 - a. Yes.

7. I understand that the maximum level of 15 in recovery zone tax benefits start whenever the collaborative started. What would be the starting date of Global Tooling Alliance, LLC, the one Ronart is a member of?
 - a. Ronart has been a member of the Global Tooling Alliance since April of 2007, when the collaborative formed. The formal LLC organizing draft documents have been included in the application to the MSF, and will be executed once the MSF grants approval. This is the exact same process that previous collaboratives have taken in past years, who also sought this RZ status.
 - b. Since property tax day (according to the State Tax Commission) in Michigan is always December 31, If City Council takes action to support a resolution by December 7th, then Ronart and the rest of the members of the Global Tooling Alliance will be recommended for approval by the Michigan Strategic Fund at its December 19th meeting, and the new tax free status will begin as of December 31, 2007.

8. Why is better for Ronart to request for a creation for a recovery zone than join an existing one, since a "zone" does not have to be contiguous?
 - a. Anytime a company joins an existing collaborative, they must prove to the state what additional value or expertise, or customer base, that the company is bringing to the collaborative that the group doesn't already have. Many of the current 23 collaboratives are not accepting new members, since this test can sometimes be difficult to prove. Being part of a new collaborative that is just beginning allows members with various skill sets and customers to "marry" these skills from the beginning.

9. Does Ronart want the City Council/MEDC to take action on the recovery zone request in order for the tax benefits to start January 1, 2008?
 - a. YES – City Council is required to take action in order for Ronart to be included in this pending application for the collaborative, and in order the tax benefits to begin by December 31, 2007 – property tax day in Michigan. See answer 7b above....

10. Do the companies listed on the State's Form A represent the other companies waiting for the Ronart recovery zone process to be approved by City Council in order to receive approval from the MEDC for recovery zone designation? Have these companies already been approved by their respective governing bodies? Are these companies and Ronart competing for one recovery zone designation, especially given there is only two zone designations left in 2007? Why are some of the companies applying for tax benefits to last less than 15 years?
 - a. Yes, all those companies are awaiting approval from the MSF
 - b. Yes, all the companies listed on Form A have their resolutions approved by their local jurisdictions. The one exception is Custom Machines....there is no resolution from the City of Adrian in the application.
 - c. Yes, the Global Tooling Alliance is competing for one of the two zones remaining, however the MSF received only one application for the two zones – that application is from the GTA.
 - d. Some companies are applying for less than 15 years, because their communities were not willing to approve the full 15 years.

11. According to the General Property Information print out, there are 17 buildings associated with the Ronart Industries operations; but the print out does not show buildings 2-9. Why are these omitted? Would all of these buildings be located in the recovery zone for Ronart?
Ronart is requesting RZ status on 7 tax parcels as shown on the attached listing. We are not familiar with what is on the General Property Information print out.
12. To simplify my understanding of what Ronart Industries does for its clients, primarily automotive ones, is that special tools and dies are created to produce metal tools and parts for the particular client's industry? Or, do the clients use the dies created by Ronart, and produce the metal parts themselves?

Ronart designs, builds and proves out special tools and dies for its customers. The prove out process involves producing some sample parts off the dies. Once the customer buys off the dies and the parts as meeting the customer specifications, Ronart ships the dies to its customers who then produce the parts themselves in their stamping plants.

13. Ronart made sizable investments in the past. The following investments received PA 198 abatements: 1988 \$1.68 million in real and personal property; 1996 \$2.21 million in real and personal property; and 1997 \$4.21 million in personal property. In addition, Ronart made the following investments without abatement: \$2.87 million in 1999; in excess of \$5 million in 2000; \$1 million in 2001; and over \$765,000 since 2002. Please generally describe the investments made without abatement and impact on operations (I suspect much of it is included in project description write-up for the State application, with/without numerical references in many cases). Despite these investments, Ronart suffered losses in 2001 (\$3.4 million), in 2002 (\$2.2 million), in 2003 (\$1 million), in 2004 (\$1 million) and 2006 (\$2.7 million). In a nutshell, does Ronart feel its business needs streamlining to become a "niche" producer in order to survive in the future?
 - a. Ronart added two bays and its largest prove out press in 1999 and 2000 without abatement, because it was profitable at the time, and the addition was not within the previously designated IFT abatement description. The large press and the associated coil feeder and puller were required to prove out large progressive dies which is what its customers were moving toward using more and more.
 - b. Ronart has continued to modernize its equipment to become more efficient in its operations, reduce cycle timing and eliminate costly processes, as demanded by its customers.
 - c. The losses were incurred because Ronart's customers beginning in 2000 reduced the volume of dies it was placing outside their own facilities, and as DaimlerChrysler CEO stated to the Detroit Economic Club in 2004, it had on been on a cost cutting program for 4 years and was only then embarking on new product design.
 - d. Ronart believes that it has restructured itself through cost cutting and new technology to compete effectively in the world economy it is able to obtain the tax relief available through the Tool & Die Recovery Renaissance Zone legislation.
 - e. Ronart is one of the few remaining toll & die producers with equipment large enough to build the large automotive body stamping dies and with sufficiently large presses to prove them out.

14. I understand Ronart has hired a professional executive to help turn the company around. Who is this and what conclusions has the person come up with to steer Ronart back to profitability?
- Michael Landers was hired as Executive Vice-President in March 2006 with a mandate to cut costs and restructure Ronart to become competitive in the current world market. He has continued to implement cost cutting and restructuring to this date and Ronart losses have been reduced significantly year to date. Both Mr. Landers and the other managers at Ronart are very optimistic that Ronart can return to profitability next year, however, in order to grow and continue to be competitive, Ronart needs to rebuild its capital base which has been diminished substantially from the losses incurred in recent years. Without significantly more working capital Ronart is not able to take on a significant amount of work which is available to it and grow its work force to its capacity.
15. Please provide a copy of the referenced article in your project description entitled "Tool-and-die job losses made in America" by James E. Harbour, Detroit News and Free Press, August 11, 2004.
- A copy is submitted herewith.
16. How is Ronart going to finance its new high-speed CNC machining capacity for \$2 million when its current loans are non-performing status? Would the Greater Tooling Alliance help in financing this cost?
- Ronart would likely make lease/purchase arrangements with the seller of the new high-speed CNC machining capacity.
 - The GTA would not be in a position to help finance this cost at this time.
17. In your "manufacturing processes" section of your project description, last sentence says "Ronart is currently limited in the amount of work that it can bid on by cash flow limitations". Please elaborate.
- Ronart had a \$5,000,000 line of credit in 2000. Because of the non performing loan status, its lender has reduced the line of credit to \$3,500,000, despite the fact that Ronart has paid down all of its other equipment loans to the bank during the past several years. Since Ronart's customers (except Chrysler) only pay after the dies have been designed, built, proved out and delivered, there is a substantial time period during which Ronart must finance all of the material and labor costs for producing the dies. This time period can be as long as a year. Since we do not currently have the cash available to finance all of the work that is available for bid for that time period, we cannot in good conscience bid for work that we cannot finance.
18. Given the restructuring of the automotive industry, why does Ronart anticipate \$225 million of 2008 program business the company would be available for bidding by Ronart?
- Our customers have projected their needs for the future at these amounts. While there has been some adjustment, for example, with Chrysler since it was purchased by Cerberus Capital, we continue to expect them to release this amount of business as projected. Indeed, although Chrysler has postponed some projects, the remarks of its leaders indicate that even more styling changes will be necessary than they had projected. More styling changes require more stamping dies.
19. Any early projections on potential new business for Ronart as a result of its membership in the Greater Tooling Alliance over the next two or three years?

It is too early to project, as we have only begun to meet to discuss the collaborative efforts, however, we do know that other Global Tooling Alliance partners have customers that we do not currently do work for and that some of them have capacities that we do not possess. In addition, marketing is but one of the areas in which collaboration is required by the statute.

20. How long has Ronart had an Asian partner, and what benefits could this bring to the company/collaborative?

Ronart has been exploring Asian relationships for over 2 years. We have executed Letters of Intent to form Joint Ventures with two Chinese companies over the last year. We have recently received our first shipment of castings for dies that we designed, and will build and prove-out here, from one of our Chinese partners. This relationship puts us in the position not only to obtain castings cheaper, but also gives GTA the opportunity to obtain contracts locally for production in the Asian market, which we have never had the ability to access in the past.

21. The Recovery Zone legislation allows for the abatement of both real and personal property taxes. Form C-Tax Information, indicates real and personal taxable value of \$4.25 million. Ronart's projected savings in City of Detroit property taxes of \$97,000 (EEO write up) and \$325,000 in total property taxes freed up (EEO write up) if the designation is approved is based on this taxable value, correct? What is the projected loss to the county if the designation is approved?

- a. Correct.
- b. The county would lose approximately \$28,000 in operating and parks millage annually.

22. Please provide the estimated taxes lost schedule that is supposed to be attached to the resolution before City Council.

A copy is attached hereto.

23. To help me do a brief cost/benefit analysis:

- a. Projected new income tax income from new hires (give average salary at a minimum).

The average wage for the new hires is expected to be \$14 - \$16 per hour.

- b. There was no city income taxes paid by Ronart in all but one of the last 6 years, because of the annual losses. But you are anticipating small net incomes in next few years, including 2007.

You are correct about the last 6 years. Ronart is currently in a year to date loss, however, we have been profitable the last 8 months, and expect to break even or better by year end. We do anticipate a small net income in the next few years.

- c. Average utility users tax paid in last 3 years, which the City loses due to the recovery zone.

Average utility users tax paid in last 3 years is less than \$10,000 per year.

- d. Any other benefits/revenue the City realizes even with the recovery zone designation I should consider.

The taxes paid by Detroit based business that Ronart and its employees make purchases from.

24. Ronart has stated that it pays its employees in salaries in excess of \$30 per hour. What is the average rate of pay of its current employees? What average hourly rate of pay does Ronart estimate it will pay its projected new employees?
- a. Ronart's average hourly pay for its current employees is \$22.84 per hour.
 - b. Ronart estimates that it will pay its projected new employees \$14 - \$16 per hour.
25. What is the projected timetable for the new hires? What are the specific job titles, their required skills and certification that Ronart plans to add to its workforce?
- a. Ronart has already committed to hire 5 employees referred through Focus Hope. We expect to hire up to 16 additional new hires within two years.
 - b. These are all employees-in-training for machinist positions. We anticipate that we will need more qualified machinists, die makers and die prove-out personnel. The skills required include strong math background, knowledge of machining techniques, knowledge of die building techniques, print reading, computer program use efficiency. We expect to continue to hire entry level machinists through Focus Hope, and train them as well as die makers and die prove-out personnel through our employee-in-training program. Any training received through the employee-in-training program applies toward journeyman status in the machinist or die maker trades.
26. Ronart has completed the details of its internship program through a partnership with Focus Hope. Please provide a brief description of this program. What role will the Workforce Development Department, Detroit M-Tec, and the DPS Randolph Career and Tech Center play in the implementation of Ronart's internship program?
- We have been able to implement our machinist employee-in-training program through Focus Hope rather quickly. We have contacted DPS Randolph Career and Tech Center, however, they were unable to provide any of the skills that we needed at this time. We will continue to investigate the prospects of Workforce Development Department and Detroit M-Tec as the needs arise.

Ronart Industries, Inc. currently pays taxes on the following tax items:

1. Item 15012185-232 on real property (land & buildings) on Lots 1 to 27 including the West 4 feet of vacated Sherwood Avenue adjacent to said lots, and Lots 80-95, inclusive, including all of the vacated public alley at the rear thereof, William Livingston=s Seven Mile Subdivision, as recorded in Liber 55, page 28 of Plats, W.C.R., commonly known as 19365 Sherwood Avenue. SEV=\$1,454,525; Taxable Value=\$1,207,474; 2006 Summer Tax=\$93,353.37; 2006 Winter Tax=\$12,454.37.
2. Item 15012007-19 on real property (land & buildings) on Lots 52 to 67, inclusive, and the South 25 feet of Lot 68, North Detroit Subdivision, as recorded in Liber 16, Page 40 of Plats W.C.R., commonly known as 19300 Sherwood Avenue. SEV=\$110,273; Taxable Value=\$97,710; 2006 Summer Tax=\$7,572.82; 2006 Winter Tax=\$1,007.77.
3. Item 15012233 on real property (land & buildings) on Lots 28 to 33 including the West 4 feet of vacated Sherwood Avenue adjacent to said lots, including all of the vacated public alley adjacent to said land, of William Livingston=s Seven Mile Subdivision, as recorded in Liber 55, page 28 of Plats, W.C.R., commonly known as 19215 Sherwood Avenue. SEV=\$16,779; Taxable Value=\$14,866; 2006 Summer Tax=\$1,152.11; 2006 Winter Tax=\$153.30.
4. Item 2300096.711 on real property (building only) improvements under 1996 Industrial Facility Tax Certificate 96.711 for a portion of 19365 Sherwood Avenue. SEV=\$190,645; Taxable Value=\$206.405; 2006 Summer Tax=\$7,965.44; 2006 Winter Tax=\$983.15.
5. Item 15990755.00 on Personal Property owned by Ronart Industries, Inc. SEV=2,005,930; Taxable Value=\$2,005,930; 2006 Summer Tax=\$155,466.49; 2006 Winter Tax=\$20,689.
6. Item 15990756.01 on Personal Property covered by Industrial Facilities Tax Certificate 96.711. SEV=164,310; Taxable Value=\$164,310; 2006 Summer Tax=\$6,865.12; 2006 Winter Tax=\$847.34.
7. Item 15990756.02 on Personal Property covered by Industrial Facilities Tax Certificate 97.699. SEV=\$567,190; Taxable Value=\$567,190; 2006 Summer Tax=\$23,689.12; 2006 Winter Tax=\$2,925.05.

The total millage rate of taxes assessed against the above items (except Industrial Facilities Tax items) is 86.9484 including County [general operating, jail, parks, rest areas & Huron-Clinton Metropolitan Authority], City [general operating & debt service], Community College, Local School [state education, school operating & debt service], Library, and garbage disposal).